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Mexico and the United States: Each President Seeks Change in the National Tone

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Cuernavaca, Morelos, Mexico: President Felipe Calderón just delivered his third annual *Informe* and it calls for a thoroughgoing change in policy direction. President Barack Obama, for this part, is trying to rescue as much of his health-care proposal as he can from a confrontational Congress. It is uncanny how similar their pitches are after one takes into account the obvious differences in context in the two countries.

Calderón's legislative successes have been few in his three years in office. The only one I can think of that is likely to be enduring is the change in the calculation of government pensions (the ISSSTE). His tax changes are under challenge, and in the process of obtaining them he paid the price of making Mexico's Federal Electoral Commission more political than it had been. He handled the original H1N1 outbreak efficiently, but the follow-up to deal with a possible deadlier flu outbreak later in the year has been inadequate. He forcefully took on the narcotics cartels, but it is unclear at this point whether he or the drug lords are winning. His legislative effort to strengthen Pemex, the national oil company, did not deal with the central issue of increasing oil and natural gas production.

The focus of his *Informe*, actually delivered on September 2, was: "In our hands is the decision of whether we continue with inertia or whether we push for the profound changes that are necessary to advance our economy." The ten areas for action in his speech and the voluminous backup papers were the following: reduce poverty; achieve universal health coverage; provide quality education; undertake fundamental reform of public finances, including increased tax collection; enact structural reforms, including in the energy sector; make the telecommunications sector more competitive; modernize the legal framework for labor; reform basic government regulations; deepen the fight against organized crime; and reform the political system, including the electoral laws. In effect, President Calderón conceded the emptiness of his first three years in office.

Despite the failures so far in his administration, public-opinion polls indicate that the president's personal popularity is high, between 65 and 70 percent. His party, the National Action

Party (Partido de Acción Nacional, or PAN), has far less support and suffered big losses in the mid-term congressional elections on July 5, 2009, whereas the Institutional Revolutionary Party (Partido Institucional Revolucionario, or PRI) made big gains. The PRI now holds 49 percent of the seats in the lower house of the legislature, the 500-member Chamber of Deputies. In order to achieve many of his objectives, President Calderón will need the support of the PRI.

Calderón's task is harder than that of Obama. The Democrats hold a majority in both houses of the U.S. Congress, although not all the Democrats support the president's health-care proposals. Calderón's problem is the same that has beset the three Mexican presidents since 1997 when Ernesto Zedillo lost his majority in the legislature. This has provided a basis for special interests to dominate congressional votes by providing support to members to prevent changes that would dilute their vested interests. This has been the key blocking device for structural reforms that are clearly needed in Mexico. Calderón called for a "grand alliance" of the political parties under which members of the legislature would support national interests benefiting all Mexicans as opposed to party or special interests. Is this for real or is it just empty talk? I will answer this question later, but wish at this point to switch to Obama's troubles because they are of a similar nature.

Obama came to power by stressing his capacity to bring the two major parties together, to be the president of all Americans and not just Democrats. He has failed in this endeavor. Republican members of the House of Representatives voted to a person against some of Obama's key initiatives, such as the fiscal stimulus. He gathered no support from House Republicans for his health-care proposal, although he is still courting some Republican senators. Beyond this lack of support, conservatives in the United States have pulled unprovable charges out of the air by asserting that something that Republicans once favored themselves, to assess the best treatment for the elderly, is tantamount to creating death commissions. Newt Gingrich and Sarah Palin have made this charge and Obama called it an outright lie. Conservatives have stacked local meetings with rabid anti-Obama crowds whose purpose is to thwart open discussion.

Obama, in a widely disseminated speech to a joint session of the Congress on September 9, took his case directly to the public and is prepared to seek health-care legislation with little or no Republican support. It is not clear whether this will succeed because Obama also has to deal with recalcitrant Democrats on this legislation. Obama's efforts at bipartisanship have failed because Republican legislators apparently concluded that head-on resistance to his efforts is a more politically desirable approach. So far, this strategy seems to be working; Obama's public ratings have declined and those of Republicans have increased.

Calderón's chances of getting what he proposed in his *Informe* depend primarily on getting the support of two groups in Mexico—the PRI and public-sector unions that are entrenched and enjoy special privileges in determining energy, education, and labor policies. The PRI, as a result of its sizable victory in the mid-term elections, now sees itself as the probable victor in the 2012 presidential elections. After 71 years in office, the PRI lost the presidency in 2000 to Vicente Fox and in 2006 to Felipe Calderón, both from the PAN. One possibility is that the PRI may present itself to the electorate in 2012 as a constructive political party that cooperated with Calderón in his last three years in office. The other possibility is that the PRI will behave as the Republicans are doing in the United States and oppose most of Calderón's initiatives. The latter is the more likely scenario—in which case, the *Informe* will have turned out to be an empty speech. The public-sector unions mentioned above are significant special interest groups in Mexico and it is doubtful that they will give up current privileges to help Calderón achieve his newly-articulated objectives.

Large corporations in Mexico have been a protected group for decades, as is evident from the inadequate tax collection that Calderón referred to in his *Informe*. Tax collections averaged about 11 percent of GDP over many years; and they have fallen to about 9 percent in this year of economic disaster. Normal government expenditures come to about 18 to 20 percent of GDP. Mexico's GDP is projected by economic experts to fall by about 7.5 percent this year. The large corporations, through the organizations that speak for them, have advocated that the country's value-added taxes should include food and medicines that are now exempt. It is unlikely that any of the large political parties will support this, even at a reduced rate. However, Treasury minister Agustín Carstens just proposed sales taxes of two percent more or less across-the-board.

This discussion presents a bleak picture for the years ahead. My analysis may be wrong in that many Mexicans know that the changes their president is advocating are needed. The basis for my pessimistic outlook is that special interests in Mexico are at least as powerful as they are in the United States and there they succeeded in stifling health reform under President Bill Clinton and are repeating this opposition under President Obama. It is unclear at this writing how effective his

September 9 speech will be in securing enactment of his health-care legislation.

Mexico and the United States are important to each other—nothing of consequence happens in either country that does not have its repercussions in the other. Mexico's abysmal growth in GDP per capita over the last 25 years of about one-half to one percent a year finds its outlet in migration to the United States. U.S. narcotics consumption feeds the coffers of the drug cartels and stimulates the rampant violence in Mexico as the cartels fight to increase their access to the U.S. market. GDP decline in either country reduces its imports from the other. Yet, it is not clear that members of the U.S. Congress grasp the importance of developments in Mexico to the well-being of the United States. The U.S. Congress terminated a limited pilot program that allowed Mexican trucks pre-inspected for safety to bring cargo directly to destinations in the United States. The pilot program was instituted under President George W. Bush to compensate for the failure of the United States to adhere to its obligations under NAFTA. This failure was due to lobbying by the Teamsters Union to minimize competition from Mexico. Members of Congress who terminated the pilot program apparently did not realize that the message being sent to Mexico was that the United States never intended to allow Mexican trucks to bring cargo directly to the United States. Mexico had been patient for almost 10 years in retaliating against U.S. failure to live up to its NAFTA commitment, but termination of the pilot program was the last straw. Mexico did retaliate by imposing higher tariffs on some \$2 billion plus of U.S. exports. President Obama has stated that he will seek action to eliminate the trucking restrictions and Mexico has said, in turn, that it would then remove its punitive tariffs. That is where the matter now stands.

It may be possible that if the facts about the U.S.-Mexico relationship are known to members of the U.S. Congress, their actions would be more prudent. This could affect such key areas as narcotics relations, trade, investment, and actions at the border. The best way to obtain this knowledge is not from scribblers like me, but for Calderón to deliver it directly. My recommendation to President Obama is to invite President Calderón for a state visit and to work out with the Congress for Calderón to give a speech to a joint session of the two houses. Calderón would have to be discreet in what he says, and he has demonstrated that he can do this. I hope that this suggestion builds a mountain of support among people of both countries who seek better relations. Mexico, I am sure, would be pleased to reciprocate if Obama wishes that.

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